

COUNCIL ON DEVELOPMENT FINANCE

January 26, 2015

PUBLIC HEARING 409

THOSE PRESENT:

Mr. Andy Lubin, Chairperson
Senator Brian Bushweller
Senator Nancy Cook
Mr. Tarik Haskins
Mr. Jack Riddle
Richard Rowland
Mr. Fred Sears
Representative Bryon Short
Mrs. Richelle Vible

Director Alan Levin
Mrs. Rachael Mears
Mrs. Cassie Porter
Mr. Jimmy Pennewell
Mrs. Lee Porter
Mrs. Jodie Green
Lawrence Lewis, DAG
Mrs. Bernice Whaley
Mr. Jeff Stone
Mr. Tim McLaughlin
Mr. Peter Bothum

ALSO PRESENT: **Delaware Technology Park** – Mr. Mike Bowman and Ms. Tracy Shickel; **Energizer Holdings, Inc.** – Mr. Jim Mosher and Mr. Chris Crowell; **SevOne, Inc.** – Mr. Mike Shanahan; **Delaware Manufacturing Extension Partnership** – Mr. Paul Morris and Mr. Rustyn Stoops; Ms. Lindsay Lewis, OMB; Mr. Mike Jackson, Office of the Controller General; Mr. Brian McMichael, *News Journal*; Ms. Christi Miligan – *Delaware Business Times*; Ms. Cheryl Heiks, Crozer & O'Connor; Ms. Melinda McGuigan, EDIS and Mr. Andrew Denzman, Senator Coons' Office

LOCATION: Buena Vista, 661 South DuPont Highway, New Castle, Delaware 19720

TIME: 9:00 A.M.

CALL TO ORDER:

The meeting was called to order at 9:00 A.M. by Chairman Lubin, on Monday, January 26, 2015.

OLD BUSINESS:

Mr. Rowland made a motion that the minutes of the November 24, 2014, Council on Development Finance meeting be approved as presented. Mr. Riddle seconded the motion which was then adopted by unanimous vote.

NEW BUSINESS:

Delaware Technology Park (“DTP” or the “Applicant”) – Mr. Lubin and Director Levin stated that due to a possible conflict of interest, they were abstaining from the discussion of and voting on this request. Mr. Rowland became Acting Chairman for this portion of the meeting.

The Applicant is requesting a Delaware Strategic Fund loan in the amount of \$3,000,000 for build out of wet lab spaces designed specifically to meet the needs of start-up and early stage firms doing basic research and development, primarily in the health science field. The space will be located on the University of Delaware’s Science, Technology and Research (STAR) Campus (the “Project”).

Mr. Stone presented this request to the Council. He stated that there is not enough lab space, not enough space for startups and not enough space for the refinement of products to accommodate these upcoming start-up and early stage firms. He stated that with the development of the STAR Campus and the new 70,000 square foot building, 10,000 square feet will be master leased by DTP and fitted out as multiple wet lab spaces, shared open office spaces and conference rooms. He added that DTP will manage and lease the spaces to multiple firms vetted by DTP for their science and growth potential. Mr. Stone stated that the firms will be expected to use the space for approximately two years or less before graduating on to commercial space.

Mr. Pennewell stated that DTP’s liquidity has improved, the current assets remained steady, the current liabilities reduced and working capital improved, all of which show a positive change.

Mr. Bowman stated that the Project will be a 10,000 square foot area to be used for incubator space, lab space and common areas such as open office spaces and conference rooms. He stated that the shell currently exists and part of the \$3,000,000 loan will allow DTP to develop labs with HVAC systems and install the necessary equipment and fixtures. Mr. Bowman stated that they anticipate having ten to twelve tenants which will represent a diverse group of early stage technology companies working with biomarker discovery, epigenetics, diagnostics, medical devices and more. He added that the tenants will be well vetted by DTP. Mr. Bowman stated that the leases tend to be short term, based on past track records.

Mr. Bowman stated that DTP has five buildings, has enabled approximately 16,000 new jobs within the Park with 54 tenants in DTP. He stated that all of these companies started as start-ups. He added that the Board Members are people from the private sector. Mr. Bowman stated that DTP provides affordable technical space. He stated that everything that DTP and other supporters do, all adds to the success rate of these companies. He added that there has been approximately \$200,000 million of tax revenue from these companies. Mr. Bowman stated that Delaware now has two world class institutes that started from DTP – Fraunhofer and Wilmington Pharma. He stated that SevOne started with three to four people and it has now flourished. He stated that these start-ups are

hindered because developers look at them as too risky, too small and the developers need long term leases. Mr. Bowman stated that he believes that if Delaware cannot provide this type of space, Delaware faces the problem of the ability to keep these companies here. He believes DTP's goal is to capture them and keep them in Delaware. He added that with the approval of this loan request, DTP would hope to have this space operational by 2016.

In response to Mr. Sears' question, it was stated that this building is on the STAR Campus, not in the Innovation Park. Mr. Sears stated his concern regarding the current financials and with taking on a \$3,000,000 debt. Mr. Bowman stated that this is a stand-alone project and that DTP had a very unusual year. He stated that DTP had to do some refinancing last year; it had one bad debt and had legal fees. He added that that was all gone now and that with DTP being a non-profit, it is usually break even each year. Mr. Rowland stated that he believes that in taking into consideration last year's depreciation and the bad debt, DTP is at an acceptable number.

Mrs. Vible asked what criteria would have to be met for adding the fifty jobs. Mr. Bowman stated that with the help of other experts in the life science community, DTP looks at each company individually – where it is coming from, the ability to lead and how differentiating its “science” is and its business plan in order to come up with good numbers.

Mr. Stone stated that this is a little different from where there is direct employment because this is more from a futuristic look. He added that DTP is not going to create jobs but rather the tenants will be creating the jobs. Mr. Stone added that because of DTP's track record, DEDO is confident with the employment projections but DTP however, will not be held to a specific job number. Mr. Bowman stated that the indirect employment is not a requirement of the loan, but that those numbers would be tracked.

Mr. Riddle stated that the financials show that at the time of DTP's refinancing, DTP changed from an audit to a review. He stated that DTP used to do a full audit every three years but that it does a full audit every year now. Mr. Riddle asked about the revenue for the payments that will need to be made to Delle Donne. Mr. Bowman stated that that payment is based on a 90 percent occupancy rate and that the accrual of that money helps DTP to get into the 2nd aspect of the loan. Mr. Riddle asked if the companies that go into DTP, would then normally come before the CDF requesting funds. It was stated that several of the companies have come before the Council. Mrs. Mears stated that that is why DEDO does not tie the jobs to DTP – to avoid the jobs being double counted.

Mr. Haskins asked how many jobs would be estimated with a 90 percent occupancy rate. Mr. Bowman stated that the largest lab would be 1,000 square feet. He stated that that's not the typical size so DTP has sliced the space again and again. He stated that DTP could accommodate twelve companies given the fact that there are shared conference rooms, etc. He added that they are working with one company that may take 1,500

square feet. He stated that even though you have to keep them all separated, you also have to keep them interconnected.

Mr. Riddle asked about DEDO's collateral. Mrs. Mears stated that the loan will be secured by a second lien position on buildings, assignments of rents, leases and contracts, equipment, furniture and fixtures.

Acting Chairman Rowland asked if there were any public comments; there were none.

Motion Made By: Mr. Sears
Seconded By: Mrs. Vible

MOTION: After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following findings: (i) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or general welfare of the State; (iii) the Project will require a capital investment of at least \$10,000, which funds, including the loan proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested loan funds; (iv) the loan will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (v) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance, the Council shall recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of a loan in an amount not to exceed Three Million Dollars (\$3,000,000) to be disbursed from the Delaware Strategic Fund, for the Project, contingent upon the approval remaining in effect through and including January 25, 2016.

Approved by Vote of 8 to 0 with one abstention from Mr. Lubin who abstained from the discussion and the voting on this Project as he may have a conflict of interest with this Project.

Mr. Lubin resumed his role as Chairman of the Council.

Energizer Holdings, Inc. "Energizer" or the "Applicant" – The Applicant is requesting a Delaware Strategic Fund Performance grant in an amount not to exceed

\$1,432,408 and a Strategic Fund Capital Expenditure grant not to exceed \$1,500,000. The Applicant proposes to use the funds to help off-set costs associated with expanding and creating new employment opportunities in Dover, Delaware (the “Project”).

Mr. Stone presented this request to the Council. He stated that in 2013, Energizer purchased Johnson & Johnson’s (J&J) Feminine Care business, and acquired J&J’s manufacturing plant in Montreal, Canada. He stated that Energizer has decided to consolidate the Feminine Care business in Montreal with the Playtex Dover operation at the Dover location. He added that this consolidation will require an investment of \$42.5 million by Energizer and will create 270 new jobs.

Mrs. Porter stated in her review of Energizer’s most recent 10-K, she found the company to be liquid and capable of servicing its current outstanding obligations. She added that with Energizer’s history of being a sustainable company, it has the ability to generate net income year over year.

Mr. Crowell stated that Energizer has put forth significant effort on this Project. He stated that Energizer looked at both companies to determine what synergistic moves it could make - whether to go to Montreal or go to Dover. He stated that after lengthy discussions, it was decided to consolidate in Dover. He added that the Board of Directors gave its approval in June 2014. Mr. Crowell stated that this is a difficult decision for Montreal as all of those jobs will be coming to Delaware. He stated that Dover has a 500,000 square foot facility which they will be extending and realigning to accommodate the production lines. He added that there are currently 400 colleagues in Montreal and they will end up with 270-280 new jobs in Delaware. Mr. Crowell also stated that Energizer is going to be splitting into two different divisions; a battery division and a personal care division which will be given a new name. He stated that there will be two new independent companies as of July 2015.

Mr. Rowland asked how many of the 280 projected jobs will be new jobs and how many will be relocated. Mr. Crowell stated that he believes that there will be very few moving from Montreal to Dover. He added that some staff has considered it but believes that it may only be five to ten employees.

Senator Bushweller asked Mr. Crowell why Energizer chose Dover over Montreal. Mr. Crowell stated that both sites are technology advanced and at each site there is infrastructure; a building. He continued to say that ideally when you are going to combine, you look at structural changes that you will need to make. He stated that those costs and labor rates are far higher in Montreal than in Dover. He added that with the technical advantages and labor advantages, Dover made more sense. He stated that a company also wants to be close to its customers and looking at its customers, and the other factors, Energizer chose Delaware.

Senator Bushweller asked what kind of jobs were the highest paid jobs. Mr. Crowell stated that they were engineers, finance and planning. He added that Energizer has hired ten engineers and there will most likely be thirty engineers.

Senator Bushweller told Mr. Crowell that Playtex/Energizer was in Delaware in the 1930s and that it was a good corporate citizen.

Director Levin stated that Mr. Crowell has had a long history with Energizer. He added that the management of corporate is the same management that took it over from the Ralston Company. Director Levin stated that Playtex/Energizer is an outstanding company and is committed to Delaware and the State is excited about Energizer's commitment to Delaware. He added that there is a training program that is being established at the Polytech High School which will help manufacturers in Kent County. He stated that there are several benefits coming out of this Project.

Chairman Lubin asked if there were any public comments; there were none.

Motion Made By: Mr. Rowland
Seconded By: Senator Bushweller

After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following findings: (i) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or general welfare of the State; (iii) the Project will require a capital investment of at least \$10,000, which funds, including the grant proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested grant funds; (iv) the grant will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (v) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance, the Council shall recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of a Performance grant in an amount not to exceed One Million Four Hundred Thirty-Two Thousand Four Hundred Eight Dollars (\$1,432,408) and a Capital Expenditure grant in an amount not to exceed One Million Five Hundred Thousand Dollars (\$1,500,000), to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including January 25, 2016.

Approved By Vote of 9 to 0.

SevOne, Inc. (“SevOne” or the “Applicant”) – The Applicant is requesting a Delaware Strategic Fund Performance grant in an amount not to exceed \$956,480 and a Capital Expenditure grant in an amount of up to \$90,000 to prepare and outfit its new space on the STAR Campus, Newark, Delaware (the “Project”).

Mrs. Whaley presented this request to the Council. She stated that SevOne is currently located at 4550 New Linden Hill Road in Wilmington, Delaware. She stated that SevOne is expanding its operations and requesting funds to prepare and outfit its new space in the STAR Campus in Newark. Mrs. Whaley stated that SevOne’s expansion will create 150 new jobs.

Mrs. Whaley stated that SevOne was founded in 2005. She stated that in 2013, SevOne raised \$150 million in funding led by Bain Capital Investors. There are currently more than 300 employees with offices in Philadelphia and Boston.

Mrs. Mears stated that SevOne is in an intense stage of growth. She stated that additional expenses will be incurred as the entity ramps up for new contract work. She added that overall, SevOne appears to be successfully growing its revenue year-over-year and exceeding projections. Mrs. Mears stated that the company will need to diversify for continued growth.

Mr. Shanahan stated that he was previously a venture capitalist. He complimented DEDO for the assistance he has received. He stated that he has roots in Delaware; he moved here in 2003. He stated that he has been very successful in finding the right technical resources and when it became obvious that SevOne needed to expand, the STAR Campus presented great possibilities. He stated that it is difficult to project growth. He stated that this expansion represents an opportunity for SevOne to grow around the world.

Mr. Riddle asked if SevOne was going in the same building as the wet lab. It was stated that SevOne will be locating in the wing of the old administration building and will be occupying 47,000 square feet. It was asked if there was any concern about the abandonment standard. Mr. Shanahan stated that the move is not considered abandonment. He stated that they also have a lease for the 4550 New Linden Hill Road facility which it intends to honor and which does have a buyout option in a couple of years. He stated that there will be employees at that facility also. He stated that it would be used as a backup data center over the next couple of years until they can get the new data center up to speed.

Chairman Lubin asked if there were any public comments; there were none.

Motion Made By: Mr. Riddle
Seconded By: Senator Cook

After duly considering, *inter alia*, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following findings: (i) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or general welfare of the State; (iii) the Project will require a capital investment of at least \$10,000, which funds, including the grant proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested grant funds; (iv) the grant will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (v) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance, the Council shall recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of a Performance grant in an amount not to exceed Nine Hundred Fifty-Six Thousand Four Hundred Eighty Dollars (\$956,480) and a Capital Expenditure grant in an amount not to exceed Ninety Thousand Dollars (\$90,000), to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including January 25, 2016.

Approved By Vote of 9 to 0.

Delaware Manufacturing Extension Partnership (“DEMPEP” or the “Applicant”) – The Applicant is requesting a Strategic Fund grant in an amount not to exceed \$332,408, which represents \$302,400 to match the historical amount of federal support and an additional \$30,008 to support its operations. The Applicant proposes to use the funds to continue to provide technical and business assistance to Delaware firms through on-site assistance, seminars and workshops from field agents and local technical experts (the “Project”).

Mr. Anderson presented this request to the Council. He stated that the continuation of this State investment will allow DEMPEP to continue to serve Delaware manufacturers, State agencies and small business owners. He stated that \$500,000 in funds have been approved by NIST for this year for DEMPEP.

Mrs. Porter stated that DEMPEP submitted audited financials for 2013 and internally prepared statements for 2014. She stated that the financials show that DEMPEP's liquidity has been consistently strong between 2013 and 2014. She also stated that DEMPEP is current with its outstanding obligations and it does not have any structured bank debt outstanding. Mrs. Porter stated that DEMPEP reported a decline in revenue in 2013 but is projecting an increase in revenue in 2015.

Mr. Anderson stated that DEDO retains a mutually agreed upon set of metrics with DEMEP that represents the expectations for the coming fiscal year. He added that in the past DEMEP has met and exceeded those metrics.

Mr. Morris stated that DEMEP is hoping to expand. He stated that Mr. Stoops and he have had the opportunity to continue services and have been looking at opportunities through NIST for additional opportunities. He stated that DEMEP will be expanding to provide “growth services” which will be assisting in exporting abilities. Mr. Morris stated that this has been a strong year for DEMEP.

Mr. Anderson stated that the NIST score card for October reflected a score of 86; the average score for the country was 74.

Mr. Haskins asked for examples of how the funds would be used. Mr. Morris stated that DEMEP will be hiring more people. He stated that they have one person who retired and they are looking to replace him. He added that they also have hired third parties with expertise that is needed and they are looking to hire an additional field agent to focus on small business.

Mr. Lubin asked Mr. Morris if he thought DEMEP would be expanding. Mr. Morris stated that that was one of the reasons for hiring the new agent for small business. He stated that DEMEP sees a lot of activity where companies are expanding their product lines and getting ISO certified.

Chairman Lubin asked if there were any public comments; there were none.

Motion Made By: Mr. Rowland
Seconded By: Mr. Sears

MOTION: After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following findings: (i) based solely on the information supplied by the Applicant and the representations that it has made, the Applicant is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and will use no portion of the Grant funds in an “unrelated trade or business,” as defined in Section 513 of the Code; accordingly, the Applicant is an “exempt person” within the meaning of 29 *Del. C.* § 5052(7); (ii) the Grant and the Project will effectuate the financing of facilities and activities of an exempt person in order to contribute to the prosperity, health or general welfare of the citizens of the State, the Council shall recommend to Mr. Alan Levin, Chairperson, The Delaware Economic

Development Authority, approval of a grant in an amount not to exceed Three Hundred Thirty-Two Thousand Four Hundred Eight Dollars (\$332,408) to be disbursed from the Delaware Strategic Fund, for the DEMEP Project and that the approval for the grant remain in effect through and including January 25, 2016.

Approved by Vote of 9 to 0.

ADJOURNMENT

The meeting adjourned at 10:15 a.m.

Respectfully submitted,

Lee Porter, Secretary

LKP

cc: Members of the Council on Development Finance
Director Alan Levin
Lawrence Lewis, DAG

The next CDF meeting is scheduled for Monday, February 23, 2015 at 9:00 A.M. at Buena Vista in New Castle County, Delaware.